

Proposed Research Services

Prepared For

The State of Iowa Legislative Services Agency
A Study of the Socioeconomic Impact of
Gambling on Iowans
September 2004

Jane B. Cook, Vice President of Business Strategies
Frank N. Magid Associates, Inc.
One Research Center
Marion, Iowa 52302
319-377-7345 (phone)
319-377-5861 (fax)
jcook@magid.com

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FRANK N. MAGID ASSOCIATES, INC.

RESEARCH • COUNSEL

GOALS OF THE STUDY

The State of Iowa wants to understand the socioeconomic impact of gambling on Iowans. Specifically the State wants to understand:

- The economic impact of gambling on communities and other businesses
- The impact of gambling on family finances and family relations
- Demographic profiles of gamblers
- The impact of pathological or problem gambling on individuals, families, social institutions, criminal activity, and the economy
- Other relevant issues that contribute to the socioeconomic impact of gambling

PROPOSED RESEARCH PLAN

Frank N. Magid Associates, Inc. proposes a multi-phased program of research, which will include gathering data from public records in 22 Iowa communities, conducting 220 face-to-face interviews with community and business leaders, and conducting observational research of business and residential districts near casinos and of business and residential districts in the control communities without casinos, and conducting face-to-face interviews with 260 people exiting casinos at various times of the day and evening.

The research plan will provide answers to the seven major questions posed in the RFP and the majority of the sub-questions.

This proposal does not expect to answer the following questions:

- What is the impact on Iowa businesses serving as vendors for casinos?
- Of all jobs in the community, what percentage offers health insurance and/or pensions?
- What is the level of illegal gambling, sports betting, and gambling by minors?

We will have community and business perceptions of those issues, but do not expect to have conclusive data.

THE SAMPLE

Thirteen Iowa communities have casinos. Even though two casinos are on Native American reservations, we propose to include those communities in the total sample. Those communities are:

Western Iowa	Council Bluffs Sioux City Onawa Sloan
Central Iowa	Oseola Tama Altoona
Eastern Iowa	Fort Madison Dubuque Marquette Clinton Bettendorf Davenport

Magid also proposes to study nine communities without casinos, as controls. Each community is a county seat. These nine communities include:

Western Iowa	Spencer Atlantic
Central Iowa	Mason City Fort Dodge Nevada Ottumwa
Eastern Iowa	Decorah Cedar Rapids Burlington

SECONDARY RESEARCH

The Magid research analyst will collect secondary data from public records for the 22 communities in the study. Data points for 1983, 1993, and 2003 will include:

- Property tax values per capita
- Business property tax values per capita
- State sales tax collected
- Retail sales tax
- New business permits issued
- Number and type of businesses dissolved
- Commercial bankruptcies rate
- Community protection budget
- Community roads budget
- Public property utilities and maintenance budgets
- Population
- Hotel/motel tax revenues
- Tourism rate
- Local Option sales tax revenues
- Gambling tax revenue or awards to community
- Gambling tax paid to State
- Unemployment rates
- Job postings at Workforce Development Center and/or in classified advertising
- Number of individuals receiving food stamps
- Crime rates for murder, assault, domestic violence, driving while intoxicated, disorderly conduct, burglary, breaking and entering, larceny
- Number of emergency calls by type
- Source of emergency calls — local or visitor
- Death rates
- Suicide rates
- Average income
- Economic buying index by county
- School drop-out rates
- High school graduation rates
- Substance abuse statistics
- Public health statistics
- CAT applications/awards
- Vision Iowa applications/awards
- Other relevant data

PRIMARY RESEARCH

Magid will conduct one-on-one interviews with a minimum of 10 business and community leaders in each of the study communities, including the mayor or city council person, the economic development officer for the community or county, the school superintendent or principal, and five to seven business owners or managers, with a mix of age, gender, and job type.

The interviews will include demographic information, personal gambling habits, and perceptions of the community and State before gambling and with gambling. Issues to be questioned include:

- Perceived economic effect of gambling on their community or a neighboring community
- Perceived economic effect of gambling on businesses in their community
- Perceived differences in the job market between communities with gambling and without gambling
- Perceived effect of problem gambling in their community
- Perceived effect of gambling on the health of individuals in their community
- Perceived effect of casino on family life in their community
- Perceived effect of casino on family finances in their community

OBSERVATIONAL RESEARCH

Observational research, also known as Ethnographics, is a study of research subjects in their natural setting, observing behavior rather than self-described attitudes or behaviors. Observations are a natural counterbalance to public statistics and community opinions.

The observations in each community will begin with a drive around the downtown, fringe strips, and residential areas. The researchers will record their preliminary thoughts regarding the cleanliness and maintenance of the public, business, and private areas of the community. Photographs will document our impressions.

In communities with casinos, we will examine the area around the casino on foot, again recording our visual impressions and photographing what we see both around and inside the casino. We will do a license plate count in the parking lot. We will also interview a minimum of 20 people as they exit the casino to record demographics, and perceptions of economic effect of gambling on the community, its businesses, its job market, the health, family life, and finances of people in the community. We will also assess the problem gambling issue by proxy, asking if any of their acquaintances might have a gambling problem. These interviews will take place at random times during the day, evening, and late evening.

ANALYSIS

Although the data collection process will be time-consuming, the analysis of data from multiple sources in multiple cities will be a major undertaking! Here's how Frank N. Magid Associates, Inc. plans to address analysis.

First, we will prepare a grid of the secondary data by city, by region, and by with/without casino. Second, we will prepare a printout of public opinion data by city, by region, by with/without casino, and by citizen type (community leader, business leader, school leader, older citizens, younger citizens, citizens exiting casinos). Third, we will chart the observer impressions and photographs by city with/without casino. These three documents will give us a collage of the state of Iowa.

The margin of error for questions asked of all 480 respondents is +/- 4.5 percent at the 95 percent confidence level. This means that answers would reliably be repeated (+/- 4.5%) 95 times out of 100 surveys conducted with the same population. The margin of error for questions asked of subsets, like business leaders, people exiting casinos, and so on, would increase as the sample size decreases. The margin of error for a sample of 220, for example, is +/- 6.7 percent.

The next step is the most crucial. Using statistical analysis of data points, we will determine two things: which communities are healthier in terms of business vitality, citizen well-being, and absence of negative quality of life; and, what factors drive healthy communities. The analyses will include means and medians of the results, tabulated comparisons of subgroups, and linear regressions to understand causal relationships. The result will be to determine if gambling has an effect on the socioeconomic status of a community and if so, what that effect is.

REPORTING

The results of this project will be reported in a written, executive summary, a presentation report, which will include color graphs, charts, scatter plots, and photographs, and the raw data (secondary data grid, primary data printout with verbatim comments, and observational research text and photographs).

Per your request, Magid will deliver 25 printed copies and an uncompressed electronic copy of each of two progress reports, the final report draft, and the preliminary final report, as well as an uncompressed electronic copy and 200 printed copies of the final report, as well as an uncompressed electronic copy.

STUDY TIMETABLE

Magid agrees to the following timetable, which may be modified upon mutual agreement of Magid and the Studies Committee:

Acceptance of Proposal	September 21, 2004
Design of secondary research grid	By October 13, 2004
Design of primary research questionnaires	By October 13, 2004
Design of observational research plan	By October 13, 2004
Initial written progress report	By October 13, 2004
Data Collection – 7 communities	By October 22, 2004
Data Collection – 6 communities	By November 6, 2004
In-person progress report meeting	December 6, 2004
Data Collection – 9 communities	By December 20, 2004
Data tabulation, preparation	By January 5, 2005
Data analysis	By January 20, 2005
Second written progress report	By January 20, 2005
Report preparation	By February 15, 2005
In-person presentation, draft of final report	February 25, 2005
Prepare preliminary final report	By March 10, 2005
Deliver preliminary final report	By March 18, 2005
Deliver final report	TBD – by July 1, 2005
In-person presentation of final report	TBD – by July 1, 2005

Further, Magid agrees to the terms and conditions of the proposed contract.

BUDGET

Research designs	\$4,500
Secondary data collection, including travel	\$20,000
Primary data collection, including travel	\$30,000
Observational research, including travel	\$11,000
Data entry and tabulation, 480 interviews	\$3,100
Analysis	\$5,000
Preparation of two progress reports	\$2,000
Preparation of draft final report	\$2,000
Preparation of preliminary final report	\$2,000
Preparation of final report	\$2,000
Copies: 5 CD-ROMs, 50 progress reports, 25 draft final reports, 25 preliminary final reports, 200 final reports	\$1,500
Delivery of reports	\$400
Two in-person meetings, including travel	\$4,000
One in-person presentation, including travel	\$2,000
Total	\$89,500

This budget is inclusive. There will be no additional costs for travel expenses, printing, or any work processes described in this proposal. Invoicing will occur as specified in the contract terms.

PRELIMINARY WORK PROGRAM

All of the work processes proposed will be completed by employees of Frank N. Magid Associates, Inc. in Iowa and by Iowans. No work will be subcontracted.

- | | |
|---|-----------------|
| • Linn County Recorder/Cedar Rapids City Hall collect data | Cook/Brock |
| • Develop secondary data grid | Brock |
| • Set appointments with county recorders and city halls in remaining 21 communities | Gillaspie |
| • Develop primary research questionnaires | Brock |
| • Get approval from Peer Review Committee | Brock |
| • Print questionnaires | Gillaspie/Print |
| • Train interviewers | Gillaspie |
| • Plan travel to Western Iowa October 10 – 15 | Gillaspie |
| • Set appointments with community leaders in Western Iowa | Interviewers |
| • Plan travel to Central Iowa October 24 – 29 | Gillaspie |
| • Set appointments with community leaders in Central Iowa | Interviewers |
| • Plan travel to Eastern Iowa November 14 – 19 | Gillaspie |
| • Set appointments with community leaders in Eastern Iowa | Interviewers |
| • Develop observational research notation form | Brock |
| • Train interviewers on use of digital camera | Gillaspie |

Western Iowa

- | | |
|---|------------------------|
| • Secondary data collection — 6 communities | Cook/Gillaspie |
| • Primary data collection — 6 communities | Brock/Interviewers |
| • Observational research — 6 communities | Brock/Interviewers |
| • Casino exit interviews — 4 communities | Gillaspie/Interviewers |

Central Iowa

- | | |
|---|------------------------|
| • Secondary data collection — 7 communities | Cook/Gillaspie |
| • Primary data collection — 7 communities | Brock/Interviewers |
| • Observational research — 7 communities | Brock/Interviewers |
| • Casino exit interviews — 3 communities | Gillaspie/Interviewers |

Eastern Iowa

- | | |
|---|------------------------|
| • Secondary data collection — 9 communities | Cook/Gillaspie |
| • Primary data collection — 9 communities | Brock/Interviewers |
| • Observational research — 9 communities | Brock/Interviewers |
| • Casino exit interviews — 6 communities | Gillaspie/Interviewers |

- Compile secondary data grid Brock/Pellerin
- Data enter primary questionnaires Staff
- Data enter exit questionnaires Staff
- Compile observation photos, text Brock/Staff

- Progress Report Brock/Cook
- Progress Report Brock/Cook
- Draft Final Report Brock
- Preliminary Final Report Brock
- Final Report Bo
- Presentation Brock/Cook

ABOUT OUR FIRM

Frank N. Magid Associates is the nation's leading consumer research and consultation firm. For more than 46 years, our firm has pioneered the use of custom-designed consumer research, working on behalf of clients in a wide variety of industries such as consumer product and service companies, television and radio stations, communications corporations, financial service institutions, newspaper and magazine publishers, healthcare providers, institutions of higher education, charitable organizations, and government agencies. We've been pleased to work with such prominent businesses and organizations in the United States as AT&T, Paramount Pictures, Capital Cities/ABC, IBM, The Money Store, Time Warner, Inc., Nasdaq Stock Market, Motorola, and Novell, Inc., to name only a few.

More specifically within the consumer product and service arena, we're meeting the needs of businesses ranging from banks to grocery stores, from clothing stores to hotels and resorts, from restaurants to brewing companies. We're fortunate to have worked with clients such as Adolph Coors Brewing Company, John Deere Company, Jewell Food Stores, Firststar Corporation, Seiferts Clothing Store, Cub Foods, Carolyn Roehm, The May Department Stores, Radisson Hotels, Harley Davidson, Amana Refrigeration, and the Chicago Bears.

Over the past several years, our extensive breadth of marketing perspective has continued to expand with the opening of our London office, in addition to offices currently located in Iowa (our headquarters location), New York, and Los Angeles. Beyond our service to clients in the United States, we are pleased to work with clients in the United Kingdom and Europe, the Far East, the Middle East, Central America, and Australia.

OUR RESOURCES

The combined resources of Frank N. Magid Associates includes a corps of carefully selected professionals assigned to marketing research activities and strategic marketing consultation. Those professionals involved in research analysis are required to hold an advanced degree in their chosen field. Those fields include a variety of disciplines such as statistics, psychology, marketing, mass communications, sociology, business, and consumer sciences. Our research analysts are skilled in conducting both quantitative and qualitative research including telephone interviews, in-home surveys, mail questionnaires, in-studio or theater test sessions, focus groups, and in-depth “telefocus” interviews.

Your study will be conducted by Bo Brock. Bo has worked with consumer Internet services since 1994, beginning as a Product Champion for International Data Group in San Francisco, where he marketed the gaming site Arcadium and its underlying publishing system. At Ameritech, Bo was marketing manager for the company’s high-speed Internet access service, which launched in Michigan and Illinois during his tenure. He then moved to telecom McLeodUSA as Director of E-Business, founding initiatives in online customer service and sales. Bo joined Frank N. Magid Associates as a Magid Media Futures™ consultant in March 2000. Bo received a BA in English and American literature from Northwestern University and an MBA in strategy and marketing management from the University of Chicago.

Our research analysts are supported by a comprehensive field department made up of experts in population sampling and data analysis, interviewing, supervising, data entry, coding, desktop publishing, and production of presentation reports and supplementary materials. Each study sample is developed by a Ph.D.-level researcher, using state-of-the-art sampling databases. All survey interviews or focus groups are then conducted by that same individual or our highly trained staff of more than 100 interviewers.

Marsha Wolff

Marsha Wolff has been in research operations at Frank N. Magid Associates since 2002. As the Director of Research Operations Marsha manages the field services staff of 120 people, comprising of four calling centers, Surveyonline.com™, and the production and project management staff. Prior to joining Frank N. Magid Associates, Inc., Marsha managed the service delivery staff at McLeodUSA. She holds a B.A. in Business from The University of Iowa.

Jen Gillaspie

Jennifer Gillaspie has been in research operations at Frank N. Magid Associates for a year. Jennifer started her career as a supervisor in our phone center. From there, Jennifer was promoted to Project Manager of Business Strategies with responsibility for managing research projects for many of the firm’s largest clients. Jennifer is well versed in both qualitative and quantitative

research operations. Prior to joining Frank N. Magid Associates, Inc., Jennifer was a supervisor of online customer service at MCI.

Joe Pellerin

Joe Pellerin has been a working professional in the information technology/software development industry for eight years, specializing in database technology and data management. Joe joined Frank N. Magid Associates, Inc. in 2003, coming from Tampa-based Atex-Media Command, a major newspaper and media systems vendor, where he was principal developer in charge of data management and load systems for their data warehouse product. Joe serves Magid as our database administrator and lead systems developer.

Jane Cook

As vice president of business strategies Jane Cook advises clients in financial services, health care, telecom, and utilities on their customer satisfaction processes, specializing in voice of the customer (VOC) and customer retention strategies. Jane previously managed Magid's field services staff of 230 people, comprising five calling centers, Surveysonline.com™, and focus group coordination. Prior to joining Magid, Jane managed the database marketing division of Telecom★USA. She holds a B.A. in French and Spanish, and an M.B.A. from The University of Iowa. Jane currently serves on the board of directors of the Marketing Research Association.

Appendix A – Case Studies Of Work By Frank N. Magid Associates, Inc.

CASE STUDY – CUSTOMER RETENTION

Frank N. Magid Associates, Inc. realized that competitive local exchange carriers (CLECs) suffered the worst of the telecommunications market collapse in 2000-2002. After making huge capital expenditures to enter local and long-distance voice and data markets, CLECs found themselves squeezed into ever lower-margin positions by incumbent providers. As they lost their price position, CLECs suffered a steady increase in account churn and relatively high customer acquisition costs.

Magid's customer retention program clearly identified the primary reasons why former customers left, profiled similarly dissatisfied current customers, and determined the critical leverage points the company can use to dramatically increase their customers' overall satisfaction. Magid helped the company incorporate the results seamlessly into strategic and operating plans that reduce churn, retain customers, and positioned the company to satisfy customers and earn their loyalty.

Telephone surveys with former and current customers helped identify three different tiers of customers: satisfied, unsatisfied, and those in the "danger zone." These profiles enabled Magid to advise the client on the best strategy for stopping erosion in their customer base. The specific points of dissatisfaction among the "danger zone" customers gave the client a prioritized list of operational fixes to pursue.

CASE STUDY – CUSTOMER SATISFACTION TRACKING ISO 9000

Professional services firms must be particularly sensitive in their assessment of customer satisfaction: when working in tightly-knit industries, the smallest mistake can impact a firm's brand image throughout its short client list. Increasingly, firms are formalizing their efforts to track and improve customer service and satisfy ISO 9000 certification requirements.

Magid has guided a professional service firm through the process of establishing a new internal system for tracking customer satisfaction at each step in a particular engineering project, from first point of sales contact to finished construction. This affected many levels within the organization, and each point of client contact required a distinct method for measuring impact on client satisfaction. Magid ensured that each of these processes maintained proper research standards and that employees knew how to track and analyze data over time.

To provide a benchmark scoring of customer satisfaction, Magid designed and executed the first round of paper-based surveys to a representative sample of the firm's customers, reports, identified and prioritized action items for addressing the customer satisfaction issues discovered. The client uses the final version of the customer satisfaction tracking process today.

CASE STUDY – VOICE OF CUSTOMER FOR PROCESS IMPROVEMENT

A Fortune 100 financial services company uses ongoing voice of customer data to understand customer perceptions and evaluations of its customer support center. Magid interviews yesterday's callers to track perceptions, evaluations, satisfaction, and the likelihood of acceptance should some services switch to an Internet-based solution.

The results illuminate which elements of customer service quality drive customer satisfaction and loyalty. Senior managers use the data to drive process improvements and call center management uses the data to evaluate performance of telephone representatives.

CASE STUDY – COMMUNICATIONS PROCESS VERIFICATION

The Food and Drug Administration required a major healthcare service provider to verify whether surgical patients of an implant device had been given satisfactory warning of its potential failure. Magid designed a research process, interviewed patients, surgeons, and hospital administrators by telephone, and analyzed results to indicate what the healthcare service provider needed to do to improve satisfaction among the patients in a highly emotional situation where product liability could have meant financial ruin.

The utility of the results allowed our client to act quickly and meaningfully to the end-users of their product. The Food and Drug Administration accepted our analysis and recommendations and did not pursue further legal action against the healthcare service provider.

Appendix B – Project Final Report Conducted By Bo Brock

See attached.

Final Research Report

Prepared For

CLIENT
June 2004

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FRANK N. MAGID ASSOCIATES, INC.

RESEARCH • COUNSEL

Key Takeaways

At the request of several CLIENT members, Frank N. Magid Associates has distilled the fully detailed report into a handful of key takeaways.

1. **Client contractors already have a huge market share.** The good news: client members may not have *more* projects than non-client shops, but they have *bigger* projects and get the lion's share of the money spent on Client work. The bad news: at this point, it's easier to lose market share than it is to gain it.
2. Below is an average **customer profile** of the companies we talked to:
 - *Customers don't have a clear image of client Client shops either way.* The only thing that sticks out in most customers' minds about clients is that they're expensive. Beyond that, the CLIENT is starting from scratch when it builds an image for client members.
 - *Companies are either pro-client or anti-client.* This means it will be hard to win over new customers who have never used client Client contractors. To make matters worse, few companies use both client and non-client contractors.
 - *They make decisions about contractors the same way ...* whether they're pro-client or anti-client. The same things are important: quality of the work, ability to stick to spec and meet schedules, safety, and job coordination with the customer.
 - *Client customers hold clients to higher standards.* Even though their image of clients isn't clear, businesses expect more from clients in work quality and job performance — even though they are less satisfied with client contractors than they are with non-clients on many specific issues like quality of work, clean-up, etc.
3. **Customers of client Client contractors are pretty satisfied.** There are many areas where client members could improve performance — training programs, clean up, ability to meet schedules — but the overall satisfaction score is 4.52 out of 5, the same as non-client shops.
4. **Apprentices need manners.** It's the soft stuff that counts for customers: being polite, cleaning up, taking quick breaks. This is *common sense*, but it's impossible to get apprentices to do this stuff unless contractors train them to do it, getting them to spend a little more time being social and a little less time rushing to get the job done quickly. Here's another way to put it: *manners* should be a regular part of training, just like learning how to do a basic task. It doesn't have to be charm school, but it does have to leave an impression on these younger guys.

5. **The CLIENT should measure contractor performance.** The only way to get better at doing something is to do it, measure it, and then repeat the process. The CLIENT should measure client contractors' performance by tracking it over time, and *there is no substitute for this*. Here are a few important things to measure:

- Percentage of project milestones met on time
- Number of late arrivals by client workers
- Percentage of projects that require rework
- Performance against budgets/estimates
- Number of formally lodged complaints per project
- Actual versus estimate hours

Don't limit yourselves to the specific items above. The CLIENT should sit down and agree on answers to these questions: What are the most important things to track? How should we track them? How are we going to get client members to help us track them? Then you have to do it, and you have to keep doing it.

6. **The CLIENT needs more support.** Whatever the CLIENT does to improve the image of clients and increase client market share, it needs the support and participation of all client members. If a *single* contractor doesn't follow through with training and enforcement, the reputation of all client contractors suffer — and this whole effort is a waste of time.

Research Study Background

This report summarizes the results of a telephone research study conducted by Frank N. Magid Associates for the CLIENT between April 28 and May 13, 2004. The purpose of this study was to learn about the opinions area business have of client contractors and their role in construction projects.

The data in this report comes from the research study itself, in the form of both numbers (e.g., means, percentages) and verbatim comments. Unless otherwise noted, Magid based our conclusions and recommendations solely on the data and information we gathered during the course of the study.

A note on sample and statistical significance

The sample for this research study came from two sources. The first was a customer list provided voluntarily by the members of client; prior to the study, members told these customers that Magid would be conducting a research study. (Because that list was not a census, however, it may not be truly representative of the members' customer base.) The second source was a purchased list of businesses in the three-county area (Linn, Benton, and Jones), which Magid considers representative of the market.

A total of 78 *respondents* completed surveys; 20 were from the client customer list. Although Magid began the survey with 325 respondents, 247 screened out because they didn't require Client work at all. The respondents who finished the survey came from a mix of locations and business types, but these individual groups (or cells) are too small to determine any statistically significant response patterns among them.

For the total sample of 78 respondents, the margin of error is ± 9 percent at the 90 percent level of confidence. This means that if we repeated this study 10 times, a value of 50 percent would fall between 59 percent and 41 percent nine times. Percentages that are lower or higher have gradually smaller margins of error; for example, the statement that "95 percent of potential customers prefer client contractors" has a margin of error much smaller than 9 percent.

More detailed information is available.

As with any research study, more detailed information is always available. Frank N. Magid Associates has provided a CD-ROM that includes a copy of this report, the final questionnaire, verbatim transcripts of open-ended responses, and the fully tabulated data. These documents are in Microsoft Word format.

If the reader has any questions about this report, or would simply like more information about the study and its results, please contact research analyst Bo Brock at 319-377-7345 or bo@magid.com.

Key Findings

Our key findings, organized under bold headings below, are based exclusively on the data from this research project. They do not incorporate any third-party information about client Client contractors, their employees, or customers.

Construction projects are diverse in size and labor structure

Ninety-four percent of respondents said they were involved in the purchase or management of construction projects that required this type of work in the past 3 years; 80 percent said they would have such projects over the *next* three years. Their responses to our questions about these past and future projects didn't vary much, meaning respondents don't anticipate major changes in their projects over the next few years. It's business as usual.

That the projects themselves vary widely in their size and client/non-client labor mix may not surprise the CLIENT, but it aided our data analysis. Table 1 summarizes two themes nicely: past and future projects are remarkably similar, and there is a great deal of variance in the projects themselves.

Table 1
Profile of Construction Projects

	Past 3 years actual	Next 3 years projected
Type of work: cost		
\$10,000	X	x
\$25,000	X	x
\$50,000	X	x
\$100,000	X	x
\$250,000	X	x
\$500,000	X	x
\$750,000	X	X
\$1 million	X	X
\$1 million+	X	X
Don't know	x	x
Type of work: labor		
All client	X	X
Mixed	X	X
All non-client	X	X
Don't know	x	x

Numbers are percentages

Respondents appear confident that the future projects they describe are likely to happen. On a 5-point scale of likelihood, xx percent gave these projects a "top box" score of 4 or 5, with an overall average (mean) of x.xx.

Client contractors have a disproportionate dollar share of the market

Note the even distribution of client and non-client labor in Table 1. About a third of the projects are exclusively client or non-client (the small decline in non-client labor for future projects is not statistically significant), and the remainder of the projects used a mix of both.

When respondents said both had been used in past projects, they specified a percentage of client labor between 10 percent and 99 percent; when respondents said both *will be* used in future projects, they specified a percentage of client labor between 25 percent to 99 percent. The precise mix is incidental, but the data suggests that the Client contractor market in the three-county area is evenly split between client and non-client on a per-project basis.

But client contractors appear to have a much higher dollar share of the market. Nearly half (48%) of the respondents who used client contractors in their last project valued the Client work for that project at more than \$250,000 — only 19 percent of non-client projects were at that level. While the sample size is not large enough to precisely identify the proportion, it is clear that that clients have an edge in high-value contracts. (This is confirmed in some responses to the open-ended questions where respondents said client contractors were really the only choice, or the only ones big enough or qualified enough to handle a job that size.)

Clients do not have a strong image among area companies

Table 2 (below) shows that, in aggregate, respondents don't have a strong opinion of clients at all. Only the statement that "Client contractors are more expensive than non-client workers" — which even the client doesn't necessarily dispute — appears to have any real resonance. The rest of the statements, both negative and positive, have decidedly undistinguished scores.

Table 2
Agreement With Statements About Construction Projects and Labor

Used client contractor?			
All ¹	Yes	No	
X	X	X	Client contractors are more expensive than non-client workers
X	X	X	Client workers are true craftsmen
X	X	X	Non-client labor is more flexible/easier to work with
X	X	X	Client contractors have a superior safety record
X	X	X	Client workers are overpaid for the work they do
X	X	X	Clients will cause trouble if they don't get an important contract
X	X	X	Client workers are better trained than non-client workers
X	X	X	Clients don't understand the way business works
X	X	X	Client contractors are difficult to work with
X	X	X	Project is more likely to be on time/on spec with client workers
X	X	X	Client workers go on strike too often
X	X	X	Projects done with client labor are a better value
X	X	X	Client contractors are more accountable for quality of their work
x	x	x	Clients guarantee their workers a job

Numbers are averages (means) on a 5-point agreement scale.

¹ Includes those who used both.

Table 2 also illustrates the vast differences between respondents who used a client contractor for their last construction project and those who didn't. Across the board, those who used client labor were more likely to agree with positive statements about clients and disagree with negative statements. (This is not axiomatic, as some respondents may have had bad experiences with clients, while non-users of client labor might be willing to give clients the benefit of the doubt.) In any case, there is a statistically significant difference between these two groups.

That difference does not explain the undistinguished overall scores, however; even respondents who used client labor gave modest scores to the positive statements about clients. The bottom line: *area companies don't have a strong impression of clients either way*. This is part of the challenge facing CLIENT as it seeks to improve the market position of client members.

Criteria for choosing a client type of contractor are universal

Table 3 (below) shows that both users and non-users of client labor put similar weight on criteria for selecting an Client contractor: quality and project performance matter to everyone. The only two criteria on which users of client labor put significantly more emphasis than their non-client peers are “workers training programs” and “availability of a deep labor pool.” Unfortunately for the CLIENT, these two criteria are among the least important for all respondents, no matter their attitude toward client labor.

Overall, five criteria emerge as critical, beginning with quality of work, which stands apart from the rest. The next two — ability to stick to the project spec and schedule — are easily measured and will be at the top in any project-based industry. The next two, however, are more amorphous: safety and job coordination with the customer. After this, criteria drop off sharply in importance; anything near or below 4.00 is not likely to play a deciding role in the selection of a client type of contractor.

Table 3
Importance of Criteria in Choosing a Contractor

Likely to use client contractor?			
All ¹	Yes	No	
X	X	X	Quality of the work
X	X	X	Their ability to stick to the project spec
X	X	X	Their ability to meet schedules
X	X	x	Safety
x	x	X	Job coordination with the customer
X	X	X	Past experience with a contractor
X	X	X	Long-term warranty on the work
X	X	X	Flexibility while working on the project
X	X	X	Price
x	x	x	Clean up
X	X	X	Electricians’ training programs
X	X	X	Availability of a deep labor pool
x	x	x	Counsel from your peers at other companies

Numbers are averages (means) on a 5-point importance scale.

¹ *Includes those who are unsure about likelihood to use client labor.*

Overall satisfaction with contractors is modestly high

Table 4 (below) shows that overall satisfaction is identical for client and non-client contractors, although respondents were somewhat more likely to recommend client contractors than their non-client peers. Customers of client members were not any more or less satisfied than non-customers.

The overall mean of x.xx (x.xx for those who use exclusively client and non-client labor) is modestly high, and on par with other well-established services and mature markets Frank N. Magid Associates has tested.

Finally, likelihood of using a client shop again is not exceptionally strong at x.xx (out of 5), and very few respondents who used a non-client contractor last time will choose a client shop for their next project. This finding had a significant impact on our recommendations, as it shows that opinions of client contractors are deeply entrenched.

Table 4
Satisfaction With Contractors

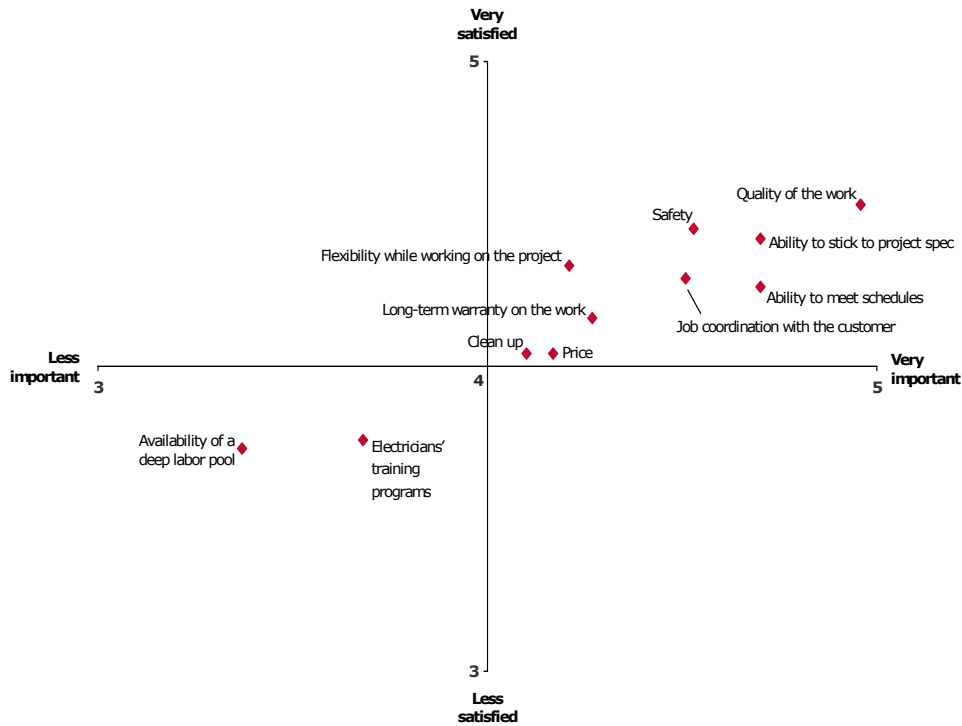
Used client contractor?			
All ¹	Yes	No	
X	X	X	Overall satisfaction
X	X	x	Likelihood of recommending contractor
x	x	X	Likelihood of using client Client contractor next time

Numbers are averages (means) on 5-point scales.

¹Includes those who used both.

Contractors have an opportunity to improve satisfaction

The scatterplot on the follow page plots the importance of 11 different criteria versus the respondents' satisfaction with their contractor in their most recent project. It thus illustrates the relationship between importance and satisfaction for each of the 11 criteria across the entire sample — and demonstrates that there are many layers behind the overall satisfaction numbers above.



A few observations about this graph:

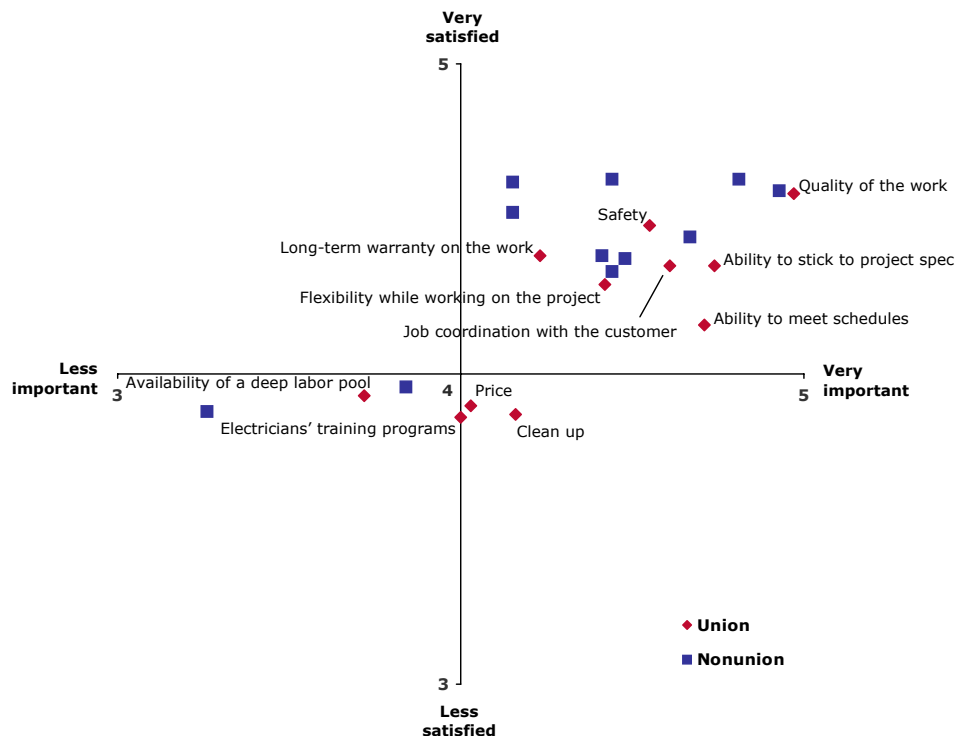
- *Importance and satisfaction are roughly correlated.* This suggests that respondents can't separate the two concepts — “It's important because I'm satisfied with it” — which renders the data relatively more difficult to analyze. We don't believe this is a major problem, but it's worth noting.
- *Most of the statements score high in both importance and satisfaction.* Variance is particularly low among criteria for satisfaction, and this normally makes it more difficult to prioritize self-improvement efforts.
- *There is more variance in importance than in satisfaction.* Respondents have provided a wide range of importance scores, which actually makes it *easier* for CLIENT to prioritize efforts to improve client members' performance.
- *Importance is higher than satisfaction for most criteria.* This means that contractors are failing to perform to the level that respondents expect. But this is good news, because it shows that (a) contractors have room to improve and (b) the improvement will be welcome.

To summarize: the total mention scatterplot above doesn't help the data analysis very much. We need to dive in one layer deeper and look at importance versus satisfaction for two different groups: respondents who exclusively used client contractors in their last job and those who exclusively used non-client contractors. The results (on the next page) are very useful.

Non-client contractors have higher satisfaction in critical areas

The scatterplot below is similar to the one on the previous page, except that it plots importance versus satisfaction of 11 criteria *for two discrete groups*: customers of client and non-client contractors. A few observations:

- *Two distinct criteria groups emerge.* We saw this earlier in the importance ratings for the criteria. Client contractors score relatively poorly on satisfaction with price, clean up, training programs, and the availability of a deep talent pool. But these criteria are not as important as those in the second group...
- *The key comparison is in the upper right quadrant.* This is where the true differences emerge between client and non-client contractors. The exact scores for non-client contractors are not important (which is why the labels have been omitted). Instead, it's important to understand the relative position of the blue and red data points.
- *Non-client contractors have generally higher satisfaction ratings.* The cluster of blue squares in the upper right hand corner shows that when judged by these 11 criteria, non-client shops fare relatively better than their client peers.
- *Customers of client contractors give generally higher importance scores.* Client customers thus have a much lower satisfaction-to-importance ratio. It may be that they just have higher standards, but customers appear to set the bar higher for client contractors.



We based the next several findings on the open-ended questions, where respondents demonstrated just how entrenched their views of client and non-client labor really are. A recurring theme in these responses is *conviction*: respondents believe very strongly that they understand the market for Client work in this area, and their opinions come from experience — which is difficult for any organization to overcome.

Reasons for rejecting client contractors go beyond mere satisfaction

When we asked respondents why they weren't likely to choose a client contractor for their next project, the answers were predictable enough, and not necessarily tied to respondents' satisfaction with the contractors' work. Cost was the number one issue, followed by a kind of organizational inertia, which we often find in market research of this type.

“Price. Depends on where I'm at and what I'm doing, whether I'm doing a commercial or residential, whether I'm doing a remodel or full house. If I'm doing a full house then I'm probably -- would have a client contractor come in and do it.”

“Price is definitely an issue to me. Whether I do or don't use it is really up to them. Whether they want to come in with some relatively attractive numbers or not. That's what matters to me.”

“I've just been happy with non-client. I have always been able to get by without client, and haven't needed to use them.”

“Because of contacts. I go for the company name, not because they're a client or nonclient I just go for a company name that's going to be able to do a bid and come out and do the job. I think there's great client contractors out there and I think there's some good nonclient contractors out there.”

In many cases, it was a categorical rejection, with or without a value judgment:

“Just because the price is usually from what I've compared in the past bids before, they've been higher ... I guess they're not as flexible to work in our situation sometimes. We've got a date we've got to be set up in advance, and there's no leeway there, usually.”

“Because my business is too small ... my jobs are too small for client.”

“They're expensive and difficult to work with and go on strike a lot and everything else that I don't like about clients.”

“Cause I don't use client contractors.”

Respondents who said they were likely to use a client contractor gave glowing testimonials about the very qualities the client itself tries to market:

“Long standing relationship with the current supplier, we've been dealing with them for 5 years on projects. We have ongoing projects all the time ... There is a quite frequent need for our type supply.”

“Because we don't do nonclient. I have a long-term relationship with a contractor. They do excellent work. I wouldn't go elsewhere.”

“Because 100% of our work at this point is client. Those are the only two contractors we have that are qualified to work in the plant.”

There is no magic bullet to improve current customers' satisfaction

Exactly half the respondents who used a client Contractor on their last project said there was *nothing* the contractor could have done to improve their satisfaction. Those who offered feedback were all over the map, with well-known complaints that were documented in the relatively low satisfaction scores in the scatterplots (above).

“Cost could have been a little more cost effective, raise quality a little bit overall. Customer service is always important to us, a working relationship, just closer communication. You can always work on improving communication.”

“Be a little more flexible in their work, one thing that the client does that bothers me that if something changes, if it's not on the blueprint, not on the specs, like there are 4 widgets and there needs to be 5, they won't put that in without charging you, and every time there is a change order, it's pretty expensive.”

“A little cleaner and taking fewer breaks. They left scrap, dust, scrap, they did smoke. Fewer breaks, that was the other thing, always taking breaks, they were always taking 15 minutes all the time.”

But none of these was a show-stopping complaint; negative views of the contractors appeared to emerge over time due to many small problems. It's death by a thousand paper cuts.

The key advantage to client labor is ... the labor

When we asked respondents to identify advantages of hiring client Contractor, the most common answer was that there are no advantages. But a close second was the idea that there are unique characteristics of client labor:

“They are usually trained better.”

“...You do know the certification of the people that are involved, the apprenticeship programs, and the training programs, and that kind of thing. Especially if you're not that familiar with the individual company ...

that is one indicator that it might that you know they would be up to speed. On the latest technologies and techniques and that kind of thing.”

“I suspect the underlying training is superior. More skilled workforce.”

“I would say one advantage would be the depth of the work pool. The fact they're able to go to the client and bring in more people as needed.”

It's clear that these traditional client messages — about the quality and depth of the workforce — resonate with a sizable portion of the potential customer base. But it is equally clear that these messages are difficult to quantify for customers and may not translate directly to higher satisfaction.

The key advantage to non-client labor is ... the money

This was a surprising result: nearly half of all respondents, even pro-client respondents, said that more competitive pricing was an advantage to non-client labor. Everything else was a distant (and almost inconsequential) second, although 21 percent mentioned better flexibility:

“Price. The mere fact that that question is on this survey tells me they do not understand about business.”

“Cost. Typically less expensive. They can be a little more flexible in what they do. Maybe you can demand more, I don't know. Cost, and just a little more flexible.”

“More flexible. They're flexible. They work with you. You don't have to go through all the red tape and rules, you know? They're less expensive I'd say. The dues, and the client makes sure they get the highest wage possible, and I think they drive their prices up.”

“Maybe price, but that is not always the case, I guess that's just me thinking, it's the idea that client is high, that's the stereotype, that's why we get bids. Flexibility and price, the client has less flexibility and higher price, but again, that's not always the case.”

Overall, the impression of contractors' employees is very positive

We closed the survey with a couple of questions about the site employees and management team of the contractor on the respondents' most recent construction project. The comments were almost uniformly positive, focused on good communication, well-established personal relationships, and good clean performance on the site. Outright negative comments were the exception; more often, a kind of indifference emerged. There were no meaningful differences between those who used client contractors versus non-client.

“They were very friendly, very knowledgeable, they sent the right people that could do the work, some of our type of work is very complicated, especially if it is control systems, there are a lot of workers that don't know about that, and they sent people that knew how to do it.”

“Very good. They followed our rules. They were here on time. They did their work. Cleaned up after themselves.”

“Fine, no problems. They did their job, and they weren't in my way. I worked with the supervisor, and it was fine.”

“I was very impressed with them. They came when they said they were going to be. They got the job done. They cleaned up afterwards. It worked.”

“They were excellent. Communications were good. Kept us informed of what decisions were to be made and when we were to be involved with them, so it was a very good relationship.”

Recommendations

Although no “magic bullet” emerged from the research, we are able to make a few concise recommendations about what the CLIENT can do to improve the image of its members and work to increase the market share of client contractors.

HOW TO USE THIS RESEARCH DATA

When looking through the verbatim responses and the tabulated data, please understand that a few individual responses do not constitute a trend, nor do a few objections constitute a crisis. The purpose of market research at this level is to learn how customers think about your members and their work, and how you might address their concerns. While these customers represent a large portion of the local Client market, we do not suggest that you can make or break your goals next year simply by reading this report and digging into the data. This is one piece in a greater puzzle.

RECOMMENDATIONS

The recommendations below, which we based purely on the research results, are roughly ordered by their importance and their probable effectiveness.

1. **Organizationally, focus on improving “hard” criteria.** The scatterplot graphs showed that the most important criteria are those customers can easily judge: project performance on a daily basis. So focus on the stuff you can measure.
 - Establish client benchmarks for quality, performance against project spec, and percentage of schedule milestones met.
 - Encourage client members to measure their performance against those benchmarks and report back with updates. Client can then update the benchmarks appropriately.
 - Once you’ve started and are confident of your performance, promote the client benchmarks and the members’ performance against them. The key is to add a quantitative dimension to the otherwise “soft” claims that client workers are really better.
2. **In training, focus on “soft” relationships.** Not every potential customer will buy the idea that client training is better, that client quality is superior, or that client standards are higher — even with established benchmarks and loads of documentation about performance. It is therefore necessary to teach client apprentices how to build relationships with the customer.
 - Encourage all client workers to build personal and working relationships with customers. Don’t rely on supervisors alone to do this: the more involved customers are in the life of the client, the more likely they will be to accept a new marketing pitch, or to trust your benchmark numbers.

- Focus on improving on-site performance: clean-up work, promptness, quick breaks, etc. These will come more naturally once the relationships have developed: you don't want to disappoint a friend. Rigorous and absolute adherence to client standards will be critical here. And if the client doesn't have standards for on-site performance, then it needs to establish them immediately.
 - Get the most promising young apprentices involved in sales. Again, deeper personal relationships will get more customers to go with client contractors. A few personal connections will tip the balance, and the most outgoing workers may be more valuable when they're selling as they are when they're working on site.
3. **Put more money into promotion.** The weak image clients have (at least locally) is a big problem, and that can be solved most effectively through more promotion: quantity is key. Frank N. Magid Associates is not in a professional position to make specific promotional recommendations (e.g., media purchases), but the focus of any campaign should be on the personal relationships and quality labor that are available through client contractors. Because there is no obvious weak point in non-client shops, it is inadvisable to attack them head-on. Instead, focus on *promoting* client labor; that, at least, is something the competition cannot counter easily ("We're non-client labor!" is not a tenable market position).
 4. **Be prepared for the long term.** There is no evidence that the CLIENT can quickly effect a change in the perception of client Client contractors, and even less that such a change will have an immediately discernable impact on market share. The market for this type of services is mature, and such markets react slowly to change.
 5. **Separate satisfaction from market share.** It isn't clear from the research that the two are even linked. Non-client contractors have generally higher satisfaction scores on specific criteria than their client counterparts, but their market share is even at best (and much smaller in dollar terms). So if client members were to increase customer satisfaction dramatically, a larger share of the local market would not necessarily follow. To transcend the well-entrenched opinions of the local market, clients must engage in a kind of small-scale image marketing.
 6. **Embrace the price premium.** It doesn't make sense to battle the market's conception that client Client contractors are more expensive than their non-client peers — even client customers believe that. (This also means avoiding any kind of cost/benefit ratio.) Instead, the client should consider treating client contractors as a kind of luxury good for contractors, something only the very best can afford to buy.

Appendix: Market Size And Client Share

Frank N. Magid Associates performed primarily secondary research for the CLIENT to determine the size of the construction market in X, Y, and Z counties, in addition to the client share of that market.

Market size

Our originally proposed method of calculating this figure was untenable: it produced figures with margins of error that are unacceptable for planning purposes. Instead, we went directly to the county assessors and McGraw-Hill, which publishes The Dodge Report and other construction industry publications. The data in tables A1 and A2 below comes from those reports.

Table A1
Assessed Value of New Commercial and Residential Construction, 2001-2003

	2001	2002	2003	Totals
X Co.				
New commercial buildings	48	55	71	174
Commercial value added	\$50,856	\$58,842	\$68,016	\$177,714
New residential buildings	1,488	1,224	1,311	4,023
Residential value added	\$244,755	\$363,445	\$295,084	\$903,284
Total buildings added	1,536	1,279	1,382	4,197
Total value added	\$295,611	\$422,287	\$363,100	\$1,080,998
Y Co.				
New commercial buildings	0	6	10	16
Commercial value added	\$1,795	\$1,217	\$1,140	\$4,152
New residential buildings	64	97	107	268
Residential value added	\$9,903	\$12,497	\$14,070	\$36,470
Total buildings added	64	103	117	284
Total value added	\$11,698	\$13,714	\$15,210	\$40,622
Z Co.				
New commercial buildings	NA	NA	NA	NA
Commercial value added	\$2,403	\$2,064	\$1,178	\$5,645
New residential buildings	NA	NA	NA	NA
Residential value added	\$15,248	\$19,850	\$22,408	\$57,506
Total buildings added	117	117	139	373
Total value added	\$17,651	\$21,914	\$23,586	\$63,151
Totals	\$324,960	\$457,915	\$401,896	\$1,184,771

Values in thousands

Source: Reconciliation Reports from City and County Assessors Offices

Table A1 shows the number of new commercial and residential “dwellings” completed in each of the last three years, along with their assessed value (which in turn serves as a reasonable proxy for construction cost). We can see that the average assessed value of new residential and commercial construction in the three-county area is \$394.9 million per year. Note that the table does not include either industrial or agricultural buildings or values; those figures were not available for all three counties, and there was some disagreement among the Assessors’ as to how accurate those figures actually were.

A second table (A2 below) displays the relevant data from McGraw-Hill, which ostensibly has the most accurate sizing of the *total construction market* in the three-county area, including remodeling projects. This table shows that the actual cost of construction projects is considerably lower than the assessed value of the finished product: \$731.6 million versus nearly \$1.2 billion over the last three years. The average market value of construction projects in the three-county area is **\$243.9 million per year**, and we can also calculate that the average cost per project is just under \$195,000.

Table A2
Actual Cost of Construction Projects 2001-2003

	2001	2002	2003	Totals	Projects
X Co.					
Social and Recreational Buildings	\$8,768	\$9,447	\$6,752	\$24,967	25
Apartments	\$14,928	\$22,222	\$19,609	\$56,759	157
Capitols/Court Houses/City Halls	\$132	\$132	\$467	\$731	4
Dormitories	–	–	\$152	\$152	2
Hospitals and Other Health Treatment	\$5,369	\$1,845	\$8,268	\$15,482	23
Hotels and Motels	\$2,680	–	\$2,400	\$5,080	4
Houses of Worship	\$3,101	\$5,529	\$8,664	\$17,294	19
Laboratories (not manufacturer owned)	–	\$200	–	\$200	1
Libraries and Museums	\$450	\$3,352	\$1,175	\$4,977	5
Manufacturing and Processing Plants	\$6,896	\$5,967	\$1,116	\$13,979	15
Miscellaneous Nonresidential Buildings	\$5,011	\$743	\$2,470	\$8,224	12
Office and Bank Buildings	\$12,032	\$9,019	\$9,784	\$30,835	77
One-family Houses	\$108,971	\$107,348	\$119,879	\$336,198	2686
Other Government Service Buildings	\$462	–	–	\$462	1
Other Religious Buildings	\$430	–	–	\$430	2
Parking Garages/Automotive Services	\$5,781	\$425	\$226	\$6,432	12
Schools and Colleges	\$23,292	\$41,939	\$9,661	\$74,892	47
Stores and Restaurants	\$7,918	\$10,995	\$5,929	\$24,842	58
Two-family Houses	\$6,421	\$7,452	\$6,896	\$20,769	98
Warehouses (not manufacturer owned)	\$1,466	\$3,111	\$3,677	\$8,254	13
Warehouses (manufacturer owned)	\$3,850	\$524	\$534	\$4,908	13
X Co. Totals	\$217,958	\$230,250	\$207,659	\$655,867	3274

Y Co.

Social and Recreational Buildings	\$1,736	–	–	\$1,736	1
Libraries and Museums	–	–	\$1,700	\$1,700	1
One-family Houses	\$4,834	\$6,771	\$6,526	\$18,131	145
Schools and Colleges	\$152	–	\$1,288	\$1,440	4
Two-family Houses	\$216	\$108	\$140	\$464	4
Y Co. Totals	\$6,938	\$6,879	\$9,654	\$23,471	155

Z Co.

Capitols/Court Houses/City Halls	–	–	\$700	\$700	1
Hospitals and Other Health Treatment	–	\$1,150	–	\$1,150	2
Houses of Worship	\$1,000	–	\$900	\$1,900	2
Libraries and Museums	–	–	\$720	\$720	1
Office and Bank Buildings	–	\$400	–	\$400	1
One-family Houses	\$12,532	\$16,346	\$16,197	\$45,075	315
Other Government Service Buildings	\$53	\$621	–	\$674	3
Schools and Colleges	\$1,618	–	–	\$1,618	1
Z Co. Totals	\$15,203	\$18,517	\$18,517	\$52,237	326

Totals **\$240,099** **\$255,646** **\$235,830** **\$731,575** **3755**

Values in thousands

Source: McGraw-Hill Publishing

After calculating the size of the total construction market, the next step is determining what percentage of the overall cost of a project that is this type of work. It is not possible for a layperson to make an educated decision about this, so Magid will leave that part of the equation to the client and its member contractors.

Client market share

Client customers are larger companies with big projects — in many cases, they are likely to have their own clients and are accustomed to working with client labor. So while non-client contractors get the majority of *projects* — as the research shows — the dollar value is skewed heavily toward the client Client contractors. The weighted average value of the Client projects respondents discussed in the research (the total of those performed over the last 3 years) was \$87,000. But for those who didn't use contractors at all, that number fell to just over \$34,000 — while those who used client contractors exclusively had a weighted average of just over **\$286,000**.

The research shows that 25 percent of non-customers used exclusively client contractors, while 50 percent used exclusively non-client. When combined with the weighted averages above, Magid calculates that client contractors control between **60-70 percent** of the total dollar value of all construction projects in the three-county area.